

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 L-03 H-03 AGR-20 INT-08 MC-02 SAJ-01

NIC-01 AID-20 CIAE-00 EB-11 FRB-02 INR-10 NSAE-00

RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03 CIEP-02 LAB-06

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TAGS: ETRD, ECRP, ECOM, PINT, HU, BEXP

SUBJECT: AMBASSADOR'S CALL ON DEPUTY PRIME MINISTER HUSZAR

REF: BUDAPEST 3969

USDOC FOR BEWT (BOWDON)

1. IN COUTESY CALL BY AMBASSADOR ON HUNGARY'S
NEWEST DEPUTY PRIME MINISTER HUSZAR (VALYI'S REPLACEMENT),
SUBJECTS OF MFN, JOINT VENTURES, FORTHCOMING CHANGES
IN ECONOMIC REGULATORS, TRADE RELATIONS WITH US, AND GOH
DESIRE TO PURCHASE IBM 370/50 COMPUTER WERE DISCUSSED.
REFTEL CONTAINED HIGHLIGHTS THIS DISCUSSION. GREATER DETAIL
INCLUDED BELOW.

2. IN CONTEXT OF RECENT CENTRAL COMMITTEE COMMUNIQUE
AMBASSADOR INQUIRED ABOUT NATURE NEW ECONOMIC
REGULATORS GOH WOULD BE APPLYING DURING NEXT FIVE YEAR
PLAN AND HOW THEY WOULD AFFECT NEM. HUSZAR REPLIED
FIRMLY THAT NEM WAS ESTABLISHED SUCCESS AND WOULD
NOT BE UNDONE, ALTHOUGH OCCASIONALLY CERTAIN
CONTRADICTIONS ARISE REQUIRING MINOR ADJUSTMENTS.

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HE VOLUNTEERED AN OUTLINE OF PLANNED CHANGES

MENTIONING NEED FOR CHANGES RESULTING FROM (A) SCARCITY OF LABOR, (B) SOME INEQUITIES IN PAY RESULTING FROM PAY RELATIONSHIPS AND PROFITS, AND (C) NEED FOR CHANGE IN ENTERPRISE PROFIT TAXATION. ON POINT (A) HE SAID TOTAL FIXED CAPITAL NOW TAXED AT 5 PERCENT. HE STATED THEY PLANNED TO LOWER FIXED CAPITAL TAXES WHICH WOULD REDUCE COST OF EMPLOYMENT OF CAPITAL AND THUS ENCOURAGE INDUSTRY TO BE MORE CAPITAL INTENSIVE AND LESS LABOR-INTENSIVE; LABOR WOULD ALSO BE MADE MORE EXPENSIVE. ON NEXT POINT HUSZAR SAID FOURTEEN ENTERPRISES HAD NOW BEEN PLACED UNDER A WAGE PAYMENT SYSTEM BASED ON LABOR ADDED VALUE RATHER THAN ENTERPRISE PROFIT. WAGES WILL STILL VARY BETWEEN ENTERPRISES ACCORDING TO VALUE ADDED TO PRODUCT. HE CALLED INITIAL TRIAL WITH COAL MINES SUCCESSFUL. ON LAST POINT HE SAID ENTERPRISE PROFITS WOULD NO LONGER BE TAXED AT DIFFERENT RATES ACCORDING TO THEIR ALLOCATION TO "DEVELOPMENT", "WAGE", AND "RESERVE" FUNDS. A NEW FUND WAS BEING ADDED AND PROBABLE DECISION TO BE MADE WOULD BE TO TAX THE FOUR FUNDS AT EQUAL RATES. THE FOURTH FUND WOULD BE FOR SOCIAL WELFARE (FLATS, VACATION APARTMENTS AND OTHER BENEFITS). WE ARE NOT CLEAR ABOUT IMPORT OF CHANGE IN TAXATION RATES BUT ASSUME IT ALSO IS DESIGNED TO ENCOURAGE CAPITAL FORMATION. AT PRESENT DEVELOPMENT FUND BELIEVED TAXED AT 47 PERCENT, AND LOWERING OF THIS TAX WOULD HAVE EFFECT OF STIMULATING CAPITAL INVESTMENT AND ENTERPRISE INVESTMENT DECISION-MAKING.

3. MAIN POINT WHICH HUSZAR MADE WAS NEED FOR MFN TREATMENT BETWEEN HUNGARY AND US. HUSZAR OUTLINED ECONOMIC LOGIC OF MFN AND ITS IMPORTANCE TO INCREASED ECONOMIC RELATIONS. AMBASSADOR GAVE ASSURANCES THAT ADMINISTRATION INTENTIONS WERE UNCHANGED AND OUTLINED CONTENTS OF NIXON LETTER TO SPEAKER ALBERT AS EVIDENCE OF COMMITMENT.

4. IN RESPONSE TO QUERY OF AMBASSADOR ON INTENTION OF GOH TO USE LEGAL AUTHORITY FOR JOINT VENTURES IN HUNGARY, HUSZAR DID NOT GIVE CLEAR INDICATION OF EXTENT TO WHICH JOINT EQUITY VENTURES WITH WESTERN FIRMS COULD BE EXPECTED. HE SAID THEY WERE LEGAL BUT WOULD BE "PRIMARY" MEANS, LIMITED OFFICIAL USE

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AND EMPHASIZED PREFERENCE FOR OTHER TYPES OF QUOTE COOPERATION END QUOTE (LICENSING, KNOW-HOW, CO-PRODUCTION AND COUNTER-PURCHASE, SPARE PARTS MANUFACTURE IN HUNGARY AND OTHER SPECIAL MARKETING ARRANGEMENTS). ALSO ENCOURAGED MANAGEMENT AND/OR TECHNOLOGY CONTRACTS SUCH AS CORN PRODUCTION SYSTEMS AND TURNKEY PROJECTS.

5. HUSZAR SAID TRADE OPPORTUNITIES CONTINUE FOR US IN

INTERIM AND DREW PARTICULAR ATTENTION TO THE LIST OF MAJOR COOPERATION PROJECTS IN HUNGARY PRESENTED TO SECRETARY OF COMMERCE DENT. HE SAID NO RESPONSE YET RECEIVED FROM AMERICAN CORPORATIONS AND HE HOPED THEY WOULD RECEIVE EARLY REPLIES. HE PARTICULARLY MENTIONED INTEREST IN ALUMINUM DEVELOPMENT. AMBASSADOR ASKED WHETHER IT WAS REALISTIC FOR US FIRMS TO SEEK TO COMPETE IN THESE AREAS IN ABSENCE MFN. HUSZAR SAID IT PUT THEM AT COMPETITIVE DISADVANTAGE BUT THAT IT WAS REALISTIC AND THEY SHOULD COMPETE.

6. HUSZAR ALSO INVITED AMBASSADOR'S ATTENTION TO NEED FOR IBM 370/50 SYSTEM FOR CENTRAL STATISTICAL OFFICE. HE ASSURED AMBASSADOR THAT SYSTEM WOULD BE USED SOLELY BY STATISTICAL OFFICE, MENTIONED ITS IMPORTANCE ("\$6 MILLION OF US EXPORTS TO HUNGARY ARE IBM"), AND SAID THAT HE BELIEVE IBM WAS BEST POSSIBLE QUALITY COMPUTER. AMBASSADOR SAID HE UNDERSTOOD COMMERCIAL IMPORTANCE FOR US, AND HAD TALKED WITH IBM VICE PRESIDENT ABOUT THEIR INTEREST IN SALE, BUT THAT SECURITY CONSIDERATIONS WERE ALSO INVOLVED AND LICENSE WAS STILL BEING CONSIDERED IN WASHINGTON. HUSZAR NOTED THAT CEMA COUNTRIES WERE DEVELOPING COMMON COMPUTER SYSTEMS AND IT WOULD BE WORTHWHILE FOR IBM TO BE IN ON GROUND FLOOR.

7. HUSZAR MENTIONED ADDITIONAL POSSIBILITIES (SO FAR UNPUBLISHED) FOR US FIRMS IN EXPLOITATION OF NEWLY EXPLORED HUNGARIAN COPPER RESOURCES, AUTOMATION TECHNOLOGY, AND EQUIPMENT (OTHER THAN PIPES THEMSELVES) FOR THE ADRIATIC PIPELINE TO HUNGARY. CITED AS AN IMPORTANT COMMERCIAL DEVELOPMENT FERTILIZER AGREEMENT WITH A US COMPANY UNDER WHICH HUNGARY IMPORTED SUPER-PHOSPHATE FERTILIZER FROM US IN EXCHANGE FOR DIFFERENT US LIMITED OFFICIAL USE

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FERTILIZER.

8. HUSZARR ALSO COMMENTED FAVORABLY ON GROWING CONTACTS BETWEEN HUNGARIAN AND US CHAMBERS OF COMMERCE, NOTING HE EXPECTED VISITING DEL FROM US CHAMBER NEXT YEAR. COMMENTS: WE UNAWARE OF SUCH VISIT AND INCLINED TO THINK HE MISPOKE. IF DEPT OR COMMERCE KNOWS OF ANYTHING WE WOULD APPRECIATE BEING INFORMED.
PEDERSEN

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